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TAGS: ECON EFIN EINV ETRD HK CH
SUBJECT: Hang Seng Recovers, but HIBOR remains High

REFS: A) HONG KONG 1866, B) HONG KONG 1833

¶1. Summary: The Hang Seng bounced back by 3.3 percent in response to the coordinated action by major central banks. Hong Kong Financial Secretary John Tseng warned, however, that the financial crisis had yet to hit Hong Kong. Despite central bank easing, interbank liquidity in Hong Kong remained tight. Banks are reluctant to approach the HKMA Discount Window for fear of looking weak. Higher rates are likely to affect property sales, which are already sliding. End Summary.

¶2. The Hang Seng Index rebounded 3.3 percent on October 9, gaining 511.51 points to close at 15,943.24, but failed to regain the 16,000 bench mark. Analysts credited the coordinated actions of major central banks around the world to lower interest rates. Total volume was HKD 61 billion, down HKD 17 billion from yesterday.

FS Tsang Predicts the Worst is Yet to Come

¶3. In response to the coordinated move by the U.S. Federal Reserve, the EU Central Bank, the Bank of England and central banks in Canada, Switzerland and Sweden to cut interest rates on Wednesday, Financial Secretary John Tsang called upon the Hong Kong people to unite to confront the financial turmoil, which he said has yet to truly arrive in Hong Kong.

¶4. (Comment: Given the collapse of the Hang Seng Index over the past several weeks, increasingly tightening interbank credit, the run on the Bank of East Asia, and the sharp public controversy over Lehman minibonds, Tsang's remarks lead us to question what he expects financial turmoil will look like when it arrives. End Comment.)

¶5. HKMA Chief Executive Joseph Yam told the press the U.S. Federal Reserve's rate cut would not immediately affect global financial markets, as the value of financial assets are no longer sensitive to changes in interest rates. Yam noted that in the current situation, lower interest rates are unlikely to be sufficient to spur investors to purchase financial assets.

Interbank Rates Remain High, Banks Fear to Look Weak

¶6. Interbank liquidity in Hong Kong remained tight, despite the Hong Kong Monetary Authority's move to reduce its Base Rate from 2.5 percent to 2.0 percent. The HKMA move followed the U.S. Federal Reserve's 50 basis point cut on Wednesday, October 8. HIBOR quoted by Hang Seng Bank at 5:03 pm was 1.75 percent for overnight, down from 2.5 percent on Wednesday; but other rates moved sharply during the Thursday business day. 1W rates at close of business increased to 4.25 percent from 4.0 percent at mid-day, 2W jumped to 4.75 percent from 4.4 percent, 1M went to 5.3 percent from 4.95 percent, and 3M rates increased to 4.5 percent from 4.4 percent.

¶7. As HIBOR remained high, large commercial banks in Hong Kong, including HSBC, Hang Seng Bank, Bank of China Hong Kong, and Standard Chartered Bank, did not lower their prime borrowing rates. HSBC, Hang Seng Bank and Bank of China Hong Kong announced this

afternoon that their prime rates would remain unchanged at 5.25 percent; Standard Chartered prime rates remained 5.50 percent.

¶8. ICBC Asia Director Stanley Wong explained that bankers in Hong Kong are reluctant to borrow money from HKMA through the Discount Window, in spite of lower longer-term rates, for fear of appearing to be in need of capital. In the current market, driven by rumor and innuendo, approaching the HKMA could damage a bank's credibility and result in a loss of public confidence.

Property Market Poised to Slip Further

¶9. Wong added that the commercial bankers will find it difficult to finance mortgage loans if one to three month HIBOR remains above 4 percent. Commercial banks in Hong Kong calculate interest rates on mortgage loans as prime rate minus 2.25 or 2.50 percent. Current mortgage rates in Hong Kong range from 3.00-3.25 percent. If HIBOR remains at these levels, banks will be forced to increase mortgage rates in an already sliding property market.
Donovan